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Special meeting on international cooperation in tax matters

Summary record of the 16th meeting
Held at Headquarters, New York, on Friday, 7 April 2017, at 10 a.m.

President: Mr. Shava ..... (Zimbabwe)

Contents

Agenda item 13: Implementation of General Assembly resolutions 50/227, 52/12 B, 57/270 B, 60/265, 61/16, 67/290 and 68/1

Agenda item 18: Economic and environmental questions

(b) International cooperation in tax matters

Interactive dialogue: "United Nations Model Double Taxation Convention between Developed and Developing Countries (UN Model)"

Interactive dialogue: "United Nations Practical Manual on Transfer Pricing for Developing Countries"

Interactive dialogue: "Handbook on the taxation of extractive industries in developing countries"

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The meeting was called to order at 10.10 a.m.

Agenda item 13: Implementation of General Assembly resolutions 50/227, 52/12 B, 57/270 B, 60/265, 61/16, 67/290 and 68/1

Agenda item 18: Economic and environmental questions

(h) International cooperation in tax matters

Opening remarks by the President and the Under-Secretary-General for Economic and Social Affairs

1. **The President** said that the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which provided a holistic and coherent framework for financing the 2030 Agenda for Sustainable Development, recognized taxation as one of the most important ways for developing countries to mobilize domestic resources for investment in sustainable development, and contained a commitment to improve the transparency, efficiency and effectiveness of tax systems. The current meeting would serve to highlight national, regional and international efforts to improve international tax cooperation, combat illicit financial flows and strengthen the institutional arrangements for promoting cooperation. It would also provide an opportunity to highlight the major accomplishments of the current members of the Committee of Experts on International Cooperation in Tax Matters, whose term would expire in June.

2. **Mr. Wu Hongbo** (Under-Secretary-General for Economic and Social Affairs) said that the current meeting would allow Member States to be updated on the most recent developments in international cooperation in tax matters before they delved into negotiations at the second Economic and Social Council forum on financing for development follow-up, to be held in May.

3. The current members of the Committee would leave an impressive legacy. They had reviewed and updated the United Nations Model Double Taxation Convention between Developed and Developing Countries, which would be issued in its revised form by the end of 2017. To complement the United Nations Model Convention, the Committee had produced the *United Nations Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries*, a compact training tool designed to provide guidance for tax treaty negotiators in developing countries. It focused on the stages of capacity development of developing countries and was particularly useful for developing countries that negotiated on the basis of the United Nations model. The Committee had completed its revision of the *United Nations Practical Manual on Transfer Pricing for Developing Countries*, which assisted policymakers and administrators in dealing with complex transfer pricing issues, as well as taxpayers in dealing with tax administrations. Lastly, the Committee had approved the guidelines contained in the forthcoming handbook on taxation of the extractive industries in developing countries, which would be launched in October. Natural resource extraction was a key factor in countries' ability to mobilize domestic resources. The handbook was designed to correct the asymmetry in specialist information and expertise in that area between multinational companies and developing countries, as well as between developed and developing countries.

4. Capacity development was needed for normative changes to have an impact. Implemented by a broad range of stakeholders, the United Nations capacity development programme in international tax cooperation was aimed at strengthening developing countries' capacity to build more effective and efficient tax systems, in accordance with Economic and Social Council resolution 2017/2. With a focus on double taxation treaties, transfer pricing and tax base protection for developing countries, the programme largely drew on the outputs of the Committee, operationalizing them for the benefit of developing countries.

5. The Platform for Collaboration on Tax, launched jointly by the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the United Nations and the World Bank Group in 2016, was designed to strengthen those organizations' cooperation on tax issues, as well as their ability to provide capacity-building support to developing countries. The Platform had made progress on several fronts, including preparations for a global conference to be held in February 2018 at United Nations Headquarters on the theme of taxation and the Sustainable Development Goals.

6. Since the term of the current membership of the Committee would come to an end in June, the process of selecting new members was under way, in accordance with the provisions of Economic and Social Council resolution 2004/69.

Keynote address

7. **Ms. Rubagumya** (Commissioner of Legal Services and Board Affairs of Uganda), delivering the keynote address and accompanying her statement with a digital

slide presentation, said that development financing in Uganda and most other African countries relied heavily on taxes. Ideally, 100 per cent of taxes should be collected from domestic resources, but currently the figure for African countries overall was approximately 70 per cent. Domestic resource mobilization was therefore focused on international taxation, in particular, enhancing compliance with transfer pricing regulations, preventing treaty abuse, and redesigning policies, which were frequently out-of-date and did not meet the demands of international taxation.

8. Various challenges hindered developing countries' efforts to make the most of taxation. Treaty abuse was widespread; since many tax treaties were outdated and did not reflect the work done by the United Nations and OECD, treaty shopping was prevalent. Another problem was the lack of information about the global activities and operations of multinational entities and the difficulty in finding comparable data for use in transfer pricing cases. Multinational enterprises created cash boxes in preferential tax jurisdictions, collecting interest and royalties without having a substantial presence or creating value there, thus eroding developing countries' tax bases.

9. Domestic resource mobilization was also undermined by limited financing for capacity-building, and developing countries lacked sufficiently expert staff. Owing to the complexity of international taxation, it took approximately four years to build tax officials' expertise to the requisite level. While better systems for taxation of income from extractive activities could potentially transform the revenues of developing countries with significant oil reserves and other natural resources, those taxing rights were often an area of dispute that ended up in costly international arbitration cases, such as *Uganda v. Heritage Oil*.

10. Online transactions, which were accounting for ever higher proportions of sales, could become another source of international tax revenue. Currently, entities that conducted business online, such as Amazon, could not be taxed by the Governments of the countries where they sold their products. News, entertainment and e-commerce websites, as well as YouTube channels, should be paying taxes to national Governments. However, neither domestic tax laws nor tax treaties contained provisions dealing explicitly with e-commerce. Even if provisions were established, enforcing compliance would present administrative challenges, especially with regard to emerging technologies, such as cloud computing, and hard-to-track intangibles.

11. The way forward was increased dialogue between developing countries, which must speak out in unison in order to resolve their common challenges. Policies and treaties must strike the right balance between maintaining source taxing rights to protect revenue and reducing tax barriers to encourage investment. Guidelines on contract negotiation and policy design for the extractive and other natural resource-based industries were especially vital. In addition, a common approach to the imposition of capital gains tax on transfers of interests in the extractive sector would benefit developing countries with natural resources. Treaties should be renegotiated to include robust limitation of benefits clauses, and clear language on the prevention of treaty shopping should be incorporated into developing countries' legal systems.

12. The United Nations should play a leading role in providing much-needed capacity-building support to national tax authorities of developing countries. She stressed the need for a framework to ensure that revenue authorities benefited from the Committee's work and recommendations on policy design and administrative reform, and for more timely and effective exchanges of information. Toolkits on various tax-related subjects should be widely circulated. She urged the United Nations to increase its capacity-building collaboration with the African Tax Administration Forum.

13. In conclusion, she said that domestic resource mobilization was crucial to transforming developing countries' economies. While that entailed many challenges, efforts to find solutions were under way.

Interactive dialogue: "United Nations Model Double Taxation Convention between Developed and Developing Countries (UN Model)"

14. **Mr. Lennard** (Secretary of the Committee of Experts on International Cooperation in Tax Matters), moderator, opening the dialogue, said that both the country where a company made its profit and the country where the company was resident were entitled to tax its profits. However, double taxation was problematic because it deterred investors. One of the countries had to relinquish some of its rights to tax in order to achieve the right balance between promoting investment and supporting development in developing countries, many of which used the tax revenue from foreign investment to build such essential facilities as hospitals and schools. The Committee of Experts on International Cooperation in Tax Matters, through the United Nations Model Convention, sought to provide guidance on determining that balance.

15. **Mr. Lara Yaffar** (Chair of the Committee of Experts on International Cooperation in Tax Matters), panellist, said that the work of the Committee over the past year had focused on revising the United Nations Model Convention to ensure that countries' ability to raise revenue for development was not hindered, and that double taxation treaties did not result in the reduction of their tax bases. Changes were going to be introduced to the United Nations Model Convention to establish when a company had the right to the benefits of a double taxation treaty, and to enable tax authorities to deny that right to a company when the primary purpose of its operations was to obtain a tax benefit, as opposed to a commercial benefit. Under the revised Model Convention, States could also choose not to grant tax benefits originally provided for by a treaty if they changed their tax system or tax benefits in order to obtain revenue beyond what had been negotiated or agreed at the outset.

16. The Committee would begin to strengthen the criteria, contained in various double taxation treaties, for determining when countries where wealth was generated had the right to tax. One such criterion was "permanent establishment", however, companies often avoided becoming permanently established through falsification or fragmentation of activities. The Committee was considering the extent to which the United Nations Model Convention should address that issue.

17. In order to increase the tax bases of developing countries, the Committee had decided to establish clear criteria for collecting taxes on payments for technical services; although not covered by the OECD Model Tax Convention on Income and on Capital, 2014, such criteria would provide developing countries with a valuable tool.

18. There were other problems that contributed to tax base erosion. The primary problem was companies opting to be based in one country for tax purposes, but actually having their centres of operations in another, in order to choose the more favourable of the tax systems. The Committee had put in place provisions that enabled tax authorities to analyse such situations and determine whether they could consider companies resident for tax purposes in order to obtain the benefits of double taxation treaties.

19. Companies used hybrid mismatch arrangements to exploit differences in different countries' tax systems. There was currently no equation to ensure that for each deductible in one country, there was a corresponding taxable amount in the other. The Committee had therefore added certain provisions to the United Nations Model Convention to prevent erosion of the tax base in that way.

20. In addition to its work on base erosion and profit shifting and transfer pricing, the Committee had worked to strengthen cooperation mechanisms for combating tax avoidance and evasion through the exchange of information. It had established the necessary parameters to achieve international cooperation in diverse areas, and had proposed to the Economic and Social Council that it could issue a code of conduct. The proposed code of conduct would establish commitments, which countries could incorporate into their national legislation, regarding the primacy of exchange of information and the development of mechanisms to make it effective. Above all, legislation should provide for the automatic exchange of financial information. Information should be shared when tax authorities requested it, but there should also be a mechanism for the automatic distribution of information that might be useful to other tax authorities, even when those authorities had not specifically requested it.

21. **Ms. Peters** (Coordinator of the Subcommittee on Base Erosion and Profit Shifting Issues for Developing Countries, Committee of Experts on International Cooperation in Tax Matters; and Policy Manager at Inland Revenue, New Zealand), panellist, accompanying her statement with a digital slide presentation, said that "base erosion and profit shifting" referred to strategies used by multinational enterprises to exploit gaps in tax legislation to artificially shift profits to no-tax or low-tax jurisdictions.

22. The United Nations Model Convention provided a blueprint for bilateral arrangements between countries under which each country gave up some of its taxing rights in the spirit of reciprocity. One of the issues that the Subcommittee on Base Erosion and Profit Shifting Issues for Developing Countries sought to address was "treaty shopping", which occurred when a third party took advantage of a bilateral tax treaty to which it was not a party. She provided a practical example of treaty shopping: "Company T", based in "State T", had an investment in "State S", which, under its domestic law, applied a 25 per cent tax on dividends. There was no treaty between State T and State S. Not wishing to pay the 25 per cent withholding tax, Company T developed an arrangement with a party resident in a third country, "State R", which did have a bilateral agreement with State S, in order to access the benefits of the bilateral treaty between States S and R.

23. Through the Addis Ababa Action Agenda, Member States had committed to improving the fairness, transparency, efficiency and effectiveness of tax systems; reducing opportunities for tax avoidance; and considering the insertion of anti-abuse clauses in all double tax treaties (paras. 22 and 23). The Subcommittee had issued a questionnaire to developing countries in order to find out what problems they faced with regard to taxation; the results showed that they faced the same problems as developed countries, with treaty abuse a major concern. In response to the expansion of the Subcommittee's mandate to include revising the United Nations Model Convention to prevent treaty abuse, it had proposed changes to the Convention which it expected to be incorporated into the 2017 update. The major changes it had proposed were a new preamble that established that treaties were not to be misused, and that specifically addressed the issue of treaty shopping; new articles to address specific types of treaty abuse; and the expansion of taxing rights to ensure that tax could be collected in the source State, where income was earned.

24. **Mr. Gomes Sambo** (Head of the International Cooperation Department, General Tax Administration, Angola), panellist, accompanying his remarks with a digital slide presentation and speaking about technical services covered by the United Nations Model Convention, said that Angolan domestic legislation provided for a withholding tax on fees for technical services; the rate was 6.5 per cent of the total value of the service. The tax was a major source of revenue for Angola, which attached great importance to foreign investment. Application of article 7 of the Model Convention to technical services would pose an administrative challenge, making it difficult to accurately tax payments. Capacity-building support must be provided to the tax administrations of developing countries if they were to combat tax avoidance. For instance, under the current United Nations Model Convention taxpayers, on the basis of the country's double tax treaties, could avoid the domestic withholding tax simply by avoiding permanent establishment in Angola.

25. The inclusion of a specific provision in the United Nations Model Convention to prevent taxpayers from avoiding permanent establishment status would provide countries such as Angola with a valuable tool to protect their tax bases. Such a rule would also be in line with most of the recent transfer pricing and base erosion and profit shifting recommendations designed to preserve source State taxing rights. Most countries that based their treaty policy on the United Nations Model Convention continued to face challenges in developing their tax administrations to be able to handle complex tax situations; often they had to cope with taxpayers who were able to avoid source State taxation through the use of international structures that allowed them to dodge permanent establishment.

26. The mismatch between the range of services covered by the withholding tax in Angola and those covered by the technical services fees provision to be included in the United Nations Model Convention would leave Angola in a difficult situation. The Convention should cover services such as maintenance, installation, specialized technical assistance and consultancy in a wide range of areas in order to ensure that payment for them was subject to the withholding tax rather than article 7.

27. **Mr. Romano** (Deputy Director General of the General Tax Directorate, Uruguay), panellist, accompanying his statement with a digital slide presentation and speaking about the impact of the United Nations Model Convention on developing countries, said that his Government had been actively working to develop tax policy in recent years, including by adopting a number of new tax treaties. International tax systems were important for Uruguay because it depended exclusively on tax revenue to fund its public policies.

28. The United Nations Model Convention, which was central to the development of tax policy for developing countries, differed from the OECD Model Tax Convention on Income and on Capital, 2014 in various ways. For instance, it defined "permanent establishment" more broadly, and its article 7, on business profits, attributed more revenue to permanent establishments, meaning that more of their income was taxable. Article 7 also contained an anti-abuse clause known as the limited force-of-attraction rule, which was useful for small tax authorities because it was often difficult to determine where business actually took place. Article 12 on royalties, which allowed for shared taxation on royalties, as well as articles 13 and 14 on capital gains and independent personal services, respectively, were also valuable for developing countries.

29. The new article 12A, on technical services, was a welcome addition: it would address harmful practices by allowing for shared taxation in the source country without requiring any threshold to be met by the service provider. The importance of ensuring that fees for technical services were taxable was illustrated by the following example: If a country had a 25 per cent tax rate and a company made a profit of 100 pesos, it would pay 25 pesos in taxes. However, if a

multinational company chose to purchase technical services through one of its outposts located in a low-tax jurisdiction, but where it did not have permanent establishment, and spent 75 pesos on those services, its taxable revenue would be only 25 pesos, meaning that it would only pay 6.25 pesos in taxes.

30. The problem was even more severe if consolidated taxation on dividends was factored in. To use the same example, if the first company paid dividends of 75 pesos to its shareholders, taxed at the rate of 7 per cent, the tax authority would receive 5.25 pesos in tax on the dividends, and would therefore receive a total of 25 plus 5.25 pesos, or 30.25 pesos. However, the second company's dividends would only amount to 18.75 pesos (its taxable revenue of 25 minus 6.25 in taxes) because the rest of its profit had been artificially transferred to a lower tax jurisdiction under the label of technical services. At the 7 per cent rate, the Government would receive 1.31 pesos in tax on the dividends, and would therefore receive a total of only 6.25 plus 1.31, or 7.56 pesos. The Government's inability to tax expenditure on technical services would result in base erosion of 30.25 minus 7.56, or 22.69. Given that many developing countries used tax revenue to fund their public policies and development programmes, it was extremely important to combat practices that led to tax base erosion; article 12A was therefore a valuable addition.

31. **Mr. Lennard** (Secretary of the Committee of Experts on International Cooperation in Tax Matters) said that the new article 12A was important because it was a step towards finding the right balance between encouraging investment and ensuring that investment provided revenue for developing countries. He asked the panellists what was on their wish list for an up-to-date future United Nations Model Convention.

32. **Mr. Lara Yaffar** (Chair of the Committee of Experts on International Cooperation in Tax Matters) said that it was important to monitor the effects of introducing the radical changes in article 12A into tax treaties. Changing the language of treaties would be only the first step; the real challenge lay in administration. Developing countries frequently adopted innovative policies but failed to apply them properly because their tax auditors did not have the requisite experience, expertise or qualifications. The United Nations Model Convention must be accompanied by a strong capacity-building programme and technical assistance. Above all, capacity-building should focus on the criteria considered in audits. It might be useful to organize forums in which tax authorities could collaborate and share their experiences in applying the new measures.

33. **Ms. Peters** (Coordinator of the Subcommittee on Base Erosion and Profit Shifting Issues for Developing Countries, Committee of Experts on International Cooperation in Tax Matters; and Policy Manager at Inland Revenue, New Zealand) said that it was important to maintain the balance between encouraging investment and preserving countries', particularly developing countries', legitimate rights to tax investment. It was necessary to continue to make changes in order to keep pace with the way multinationals operated globally, and with the best tax and treaty policies.

34. **Mr. Gomes Sambo** (Head of the International Cooperation Department, General Tax Administration, Angola) said that administrating tax treaties was the next challenge. The tax administrations of developing countries were much less prepared than those of developed countries and needed strengthened staff capacity in order to apply the new rules. The United Nations should provide that support.

35. **Mr. Romano** (Deputy Director General of the General Tax Directorate, Uruguay) said that a tax system was only as good as its administration. It was difficult for developing countries' tax administrations to contend with multinational groups, which often had much greater expertise in tax matters than they did. Therefore, he supported the establishment of a programme to support developing countries' efforts to build capacity in that critical area.

36. **Mr. Picciotto** (Emeritus Professor at Lancaster University and Senior Fellow at the International Centre for Tax and Development) said that the Committee was hampered by a lack of resources, despite the commitments made in the Addis Ababa Action Agenda. Although it had been agreed that it could meet twice per year, its full-time staff had only increased from one to 1.5 and there were no resources at all for its subcommittees, which were essential to the Committee's substantive work, and to preparations for its biannual meetings. The OECD Centre for Tax Policy and Administration, which did excellent work, had enormous resources by comparison. The imbalance between the organizations' resource levels must be addressed.

Interactive dialogue: "United Nations Practical Manual on Transfer Pricing for Developing Countries"

37. **Mr. Lennard** (Secretary of the Committee of Experts on International Cooperation in Tax Matters), moderator, said that transfer pricing was not a bad practice in itself but rather something that multinational enterprises had to do. What was bad, however — and what could be corrosive to development — was mispricing, or a shifting of profits

that prevented a developing country from achieving taxation on the profits created there because those profits appeared to have been made elsewhere, for example, in a tax haven. It was therefore vital to strike a balance between understanding that multinational enterprises did business among themselves in a very special way and ensuring that transfer pricing did not become mispricing to the detriment of developing countries and development.

38. **Mr. Sollund** (Coordinator of the Subcommittee on Transfer Pricing; and Director-General of the Tax Law Department, Ministry of Finance, Norway), panellist, accompanying his statement with a digital slide presentation, said that the *United Nations Practical Manual on Transfer Pricing for Developing Countries* had been launched in 2013 as a practical tool designed to assist the tax administrations of developing countries in tackling the difficult issue of transfer pricing. Since the Committee of Experts was not a body of Governments, the *Manual* was not a piece of legislation, or even soft law; instead, it was a response to the needs expressed by developing countries for clearer guidance on the policy and administrative aspects of applying transfer pricing analysis to some of the transactions of multinational enterprises.

39. Transfer pricing was not in itself an indication that there was something wrong or that there was abuse or mispricing; rather, it was a neutral term. In a globalized world, trade within multinational enterprises accounted for a substantial proportion of economic transactions, and the terms, conditions and prices of those intra-group transactions had a direct impact on the tax bases of the countries in which the various entities of multinational enterprises conducted their business. Consequently, it was very important for tax administrations to deal with those terms and conditions in a way that did not distort the allocation of tax bases among countries.

40. When companies traded in the market, they were exposed to market forces and to the different, and often opposing, interests of the parties to a transaction. But when the parties shared common interests because they belonged to the same group of companies, countries then needed tax rules to repair and adjust the distortive effects of the special relationships between the parties to a transaction. Article 9 of the United Nations Model Convention had established the arm's length principle, under which transactions within a group were compared to transactions between unrelated entities, and the transactions between unrelated entities were used as a benchmark for adjusting profits where profits were reduced in a specific jurisdiction.

41. The existing *Manual* from 2013 contained chapters describing how international and multinational companies operated and what legal framework countries needed within their domestic law and in international treaties to deal with transfer pricing. It provided guidance on the practical aspects of operating the arm's length principle, including price comparisons between controlled transactions and uncontrolled transactions, and measures to avoid and deal with disputes. It also described different methodologies that could be applied to the various situations and types of transactions that tax administrations might encounter. The 2017 update had a new four-part format, which comprised an introductory chapter putting transfer pricing and the arm's length principle in an economic context; a second part containing substantive explanations on the application of the arm's length principle; a third part on the administrative aspects; and a fourth part containing the special country practices. The new format would make it easier to add new elements, especially new sections in part four on the transfer pricing practices of different countries, especially less developed countries.

42. The updated *Manual* contained additional chapters on services, intangible assets, cost-sharing and business restructuring, and it took into account the outputs of the OECD Base Erosion and Profit Shifting Project, including the need to ensure that the allocation of taxation rights between jurisdictions reflected where the value was being created. It also contained revised guidance on comparability analysis and documentation, as well as an additional section on commodity transactions. With regard to documentation, country-by-country reporting had been added as a new element and the *Manual* described the legislation and practices of different countries in a neutral manner. In particular, the update contained information on the "sixth method" used by some countries in Latin America in dealing with commodity exports.

43. The *Manual* was linked to article 9 of the United Nations Model Convention concerning the taxation of associated enterprises. It explained the content of article 9 and was consistent with the commentary on that article. The commentary on article 9 would be amended in the 2017 update of the Model Convention to acknowledge the importance of the OECD transfer pricing guidelines. Since both the OECD model and the United Nations model established the same principle, the framework for dealing with transfer pricing should be the same regardless of whether a tax treaty was based on the OECD model or the United Nations model.

44. **Ms. Abdul Hamid** (Director of the Multinational Tax Department of the Inland Revenue Board, Malaysia), panellist, accompanying her statement with a digital slide presentation, said that the Manual's chapter on intra-group services was important for Malaysia, which faced many challenges as a service-recipient, rather than a service-providing, country, and as a country with many subsidiaries that paid management fees. Over the years Malaysia had been working to address those challenges and, to that end, it had embarked on transfer pricing in 2003. At that time, the Government's point of reference had been the OECD guidelines.

45. The benefit test was one of many hurdles faced by Malaysia owing to a lack of information and documentation, which meant that companies there found it difficult to demonstrate the test. Recipients were only able to submit claims that were relevant to them and there was no information on allocation keys. Malaysian subsidiary companies were also not privy to the methodologies applied in other jurisdictions. However, Malaysia was a signatory to the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports, which should help Malaysian companies to overcome those difficulties by facilitating information sharing. Other challenges were related to the fact that intra-group services were based on the percentage or proportion of sales and did not take into account the Malaysian efforts in actually acquiring those sales. Furthermore, as in most developing countries, there was a lack of publicly available information on service comparables such as labour costs. Lastly, Malaysia might consider safe harbour options in the future but, for the time being, it was unable to do so because it did not have published industry rates to use as a benchmark. As a result, data gathering would be required to determine what was an appropriate safe harbour.

46. **Mr. Lennard** (Secretary of the Committee of Experts on International Cooperation in Tax Matters) said that there were many legislative, information, skills and other gaps between developing and developed countries and between developing countries and multinational enterprises. The *Manual* was aimed at addressing those gaps.

47. **Mr. Obell** (Chief Manager of the Transfer Pricing Audits for Large Taxpayers, Revenue Authority, Kenya), panellist, accompanying his statement with a digital slide presentation, said that multinationals played a key role in the Kenyan economy as in other developing countries. In Kenya, a number of trends had been noted with regard to those enterprises, including the fact that they were reporting consistent business and tax losses year on year even though their businesses were undergoing sustained capital expenditure expansion. Capital deduction claims were high, as were tax refund claims. Many multinationals within Kenyan jurisdiction had offshore entities in low-tax jurisdictions, and tax yields in the extractive sector were low.

48. Legislative gaps were a key challenge for Kenya, which had lost cases in the past owing to a lack of effective transfer pricing legislation. It was also grappling with a lack of available data on multinationals, including information on how they were structured and where they reported profits, and a lack of comparable data. Moreover, the country lacked the technical capacity to deal with transfer pricing and did not have the resources for testing benchmarking. To address those challenges, the Government had improved its legislation and, in 2009, had formed a team of 24 experts to deal with cases of transfer pricing.

49. However, additional measures were needed to address the challenges facing the country. Further strengthening of transfer pricing legislation would be critical; to that end, the Government was working closely with OECD and was using the *United Nations Manual*. In particular, it was focusing on proper risk identification and risk analysis. A member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, Kenya was working with the United Nations, OECD and development partners to build capacity through training and workshops, and was investing in benchmarking tools.

50. **Mr. García Balda** (Coordinator of International Taxation, International Tax Service, Ecuador), panellist, said that, as a developing country and capital importer, Ecuador faced many risks, including those relating to the overvaluing of payments, intangible assets, intra-group services and financial services, all of which were causing tax base erosion. A raw material producer, Ecuador was the victim of undervalued prices, failure to apply the arm's length principle and triangulation. The latter did not occur purely in relation to tax havens; in some cases, countries with which Ecuador had concluded taxation treaties were using those treaties not as protection against double taxation but to avoid paying taxes in either country. All of that was causing further erosion of the national tax base.

51. Like many developing countries, Ecuador suffered from capacity gaps. To tackle that problem, it had reformed its taxation system and had amended its tax regulations and transfer pricing rules to make it easier for the tax authorities to impose the correct

taxes. It had also been offering training to increase the number of transfer pricing experts in the tax authorities. However, limited access to international databases continued to act as an obstacle and Ecuador had few comparables in the Latin American region. It was difficult for the authorities to make the necessary profit adjustments when they lacked information about companies in other countries. In addition, there was no defined risk matrix for transfer pricing as the country lacked the required technical data and accurate values. The tax authorities in Ecuador were using the *United Nations Manual* to improve their control processes and deepen their knowledge of transfer pricing issues.

52. **Mr. Paul** (World Health Organization) said that tobacco multinationals were among the most profitable companies in the world and tobacco usage was the single most preventable cause of death worldwide. Tobacco multinationals used transfer pricing as a tax avoidance scheme to reduce profits, which essentially represented lost revenue that could have been used for health. He wondered whether there was a way to help countries to use the *United Nations Manual* to look into that issue, given that tobacco multinationals operated across the world and the global economic cost of smoking was approaching $1.4 trillion per year.

53. **Mr. Lennard** (Secretary of the Committee of Experts on International Cooperation in Tax Matters) said that the *Manual* had not been drafted on the basis of an industry-by-industry approach but rather focused on how business was organized.

54. **Mr. Sollund** (Coordinator of the Subcommittee on Transfer Pricing; and Director-General of the Tax Law Department, Ministry of Finance, Norway) said that transfer pricing was a very important area in taxation for many industries, including the tobacco industry. The *Manual* should provide some general guidance for tax administrations as they addressed the issues that arose in dealing with the tobacco industry.

Interactive dialogue: "Handbook on the taxation of extractive industries in developing countries"

55. **Mr. Lennard** (Secretary of the Committee of Experts on International Cooperation in Tax Matters), moderator, said that a handbook on the taxation of extractive industries in developing countries would be released in October. The Subcommittee on Extractive Industries Taxation Issues for Developing Countries was the engine room of much of the work on extractive industries, as it was able to work intersessionally. In addition, its work had included the participation of non-governmental organizations and business.

56. **Mr. Mensah** (Coordinator of the Subcommittee on Extractive Industries Taxation Issues for Developing Countries; and Assistant Commissioner, Revenue Authority, Ghana), panellist, accompanying his statement with a digital slide presentation, said that extractive industries were a very important source of revenue for developing countries but many of those countries were unable to reap the benefits of having such rich resources, especially in the area of taxation. The Subcommittee on Extractive Industries Taxation Issues for Developing Countries had been established to assist developing countries in generating the necessary revenue. Specifically, it had been mandated to consider, report on and propose draft guidance on extractive industry taxation issues for developing countries. To that end, it had produced an overview note and eight guidance notes on various topics approved by the Tax Committee, all of which would be incorporated into the handbook on extractive industries taxation issues for developing countries, to be released in October.

57. The overview note drew attention to some of the taxation issues affecting the extractive industries in developing countries and gave information on the options available according to the particular circumstances in a given country. The note was designed to build awareness of the issues, assist policymakers and administrators in developing countries and provide information to other stakeholders. It gave an overview of mining and oil and gas industry structures to provide context for designing and administering a tax regime. Above all, the tax and fiscal system should ensure that the Government obtained an adequate and appropriate share of the benefits from the country's resources while providing a return commensurate with the risks borne and functions carried out by the parties.

58. **Mr. de la Rey** (Senior Specialist, Revenue Service, South Africa), panellist, said that the guidance note on fiscal take in the extractive industries would constitute a separate chapter in the handbook. The note provided context on how value derived from natural resources could be shared between Government and investors, and gave an overview of the issues arising for the types of Government take available. Fiscal payments by the extractive industry played a critical role in resource-rich countries; those payments could be in the form of income taxes, royalties, infrastructure development or the funding of projects for the benefit of local communities. Relevant aspects when designing and implementing a fiscal regime included risk and return, predictability, long-term perspective, flexibility and timing of tax revenue collection. The note also

addressed important considerations from the perspective of both resource holders and investors, and covered implementation aspects such as a dedicated tax office focusing on the extractive industry and the importance of early-stage monitoring and auditing.

59. The guidance note on tax aspects of negotiation and renegotiation of contracts pointed out that, in many developing countries without laws governing investment and the fiscal terms of natural resource activities, the terms were negotiated and reflected in a contractual agreement between investor and Government. The note gave an overview of the tax and fiscal issues faced by developing countries in negotiating and renegotiating long-term natural resource contracts. It also highlighted country and investor perspectives and the practical aspects of successfully negotiating contracts. It explained the need for contracts to be flexible enough to self-adjust as circumstances changed and the need for tax authorities to be involved to ensure consistency with sound tax policy and administration.

60. The guidance note on transfer pricing issues in extractive industries identified issues that could arise during the entire life cycle of an extractive project and suggested solutions for addressing those issues. Generic case examples were given and the note described the value chains of mining and mineral extraction, and production of oil and natural gas. The note also gave mining-specific case examples which covered issues such as price fluctuations, inter-company financing and the sale and leaseback of equipment.

61. **Mr. Mensah** (Coordinator of the Subcommittee on Extractive Industries Taxation Issues for Developing Countries; and Assistant Commissioner, Revenue Authority, Ghana) said that the guidance note on selected tax treaty issues for the extractive industries drew on material from both the United Nations and OECD models, and provided guidance on the international tax issues that could arise given that extractive activities often included cross-border elements affecting the taxes payable by those industries. The guidance note on permanent establishment issues for extractive industries provided an overview of permanent establishment tax aspects and dealt mainly with the oil and gas industry. The other guidance notes covered value-added tax issues (which could have an impact on attracting investment), the taxation of indirect asset transfers, and tax treatment of decommissioning in the extractive industries.

62. **Mr. Lennard** (Secretary of the Committee of Experts on International Cooperation in Tax Matters) said that decommissioning was important because it addressed the role that the tax system played in protecting the local area and community when the life of a mine or oil and gas facility came to an end.

63. **Mr. Pérez-Gómez Serrano** (Director of Transfer Pricing Audits, Tax Administration Services, Mexico), panellist, accompanying his statement with a digital slide presentation, said that there was only one time to correctly tax non-renewable resources, and Mexico was not alone in facing challenges in ensuring that taxes were paid in the right amount and at the right time. The national mining industry accounted for 8.5 per cent of the country's gross domestic product and was a key component in the national tax base. The industry was also a source of concern because it was a high-profit business and there was evidence of mispricing, in terms of both underpricing of commodities and overpayments of services and intangibles among related parties.

64. Mexico faced a number of difficulties in tackling taxation issues in the extractive industry, including challenges related to the definition of related parties, subjectivity in the application of transfer pricing methods, financial transactions and low-tax jurisdictions. To address those issues, the Government was working with the United Nations to establish clearer legal definitions and streamline its legislation and rules. In addition, Governments should not insist on transfer pricing methods that were not applicable and were highly subjective, such as the transactional net margin method. Transfer pricing was becoming more complex. As a result, training was needed but, in addition, risk assessment was vital, and countries needed to use all available tools including country-by-country reporting. Lastly, revenue from the industry should be used wisely because it would not last forever.

65. **Ms. Chatel** (Associate Chief, Tax Treaties and International Tax, Revenue Agency, Canada), panellist, accompanying her statement with a digital slide presentation, said that the oil and gas sector was a very important source of revenue for the Canadian authorities and generated income tax, indirect taxes, royalties and land sales. Royalty taxation in the Canadian provinces had changed and royalties were now based on net earnings instead of gross earnings, which was seen by the industry as a positive change.

66. Over the years, Canada had designed a tax system that recognized the specificities of the oil and gas industry, including its price volatility, cyclical nature and the fact that it was capital intensive. Recently, there had been a shift away from tax incentives in the

non-renewable sector in order to place the emphasis on neutrality and to have the market focus on where it was most productive. By contrast, there was increasing pressure to develop incentives for the renewable energy sector, which had been announced in the most recent national budget. Canada had suffered significant tax revenue losses as a result of loopholes in the taxation of gains that derived their value from mineral rights and oil and gas rights. However, the forthcoming handbook addressed that issue through the indirect taxation of assets.

67. A number of strengths had been identified in the Canadian taxation system. In particular, the country had many auditors and other experts specialized in the taxation of natural resources, and taxpayers appreciated being able to deal with tax auditors who understood the business. Canada had also adjusted its tax system to the business. The system was complex, given that both the provinces and the national Government were taxing resources. However, complexity went hand in hand with a comprehensive system.

The meeting rose at 1.05 p.m.

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Special meeting on international cooperation in tax matters

Summary record of the 17th meeting
Held at Headquarters, New York, on Friday, 7 April 2017, at 3 p.m.

President: Mr. Shava ..... (Zimbabwe)

Contents

Agenda item 2: Adoption of the agenda and other organizational matters (*continued*)

Agenda item 13: Implementation of General Assembly resolutions 50/227, 52/12 B, 57/270 B, 60/265, 61/16, 67/290 and 68/1 (*continued*)

Agenda item 18: Economic and environmental questions (*continued*)

(h) International cooperation in tax matters (*continued*)

Interactive dialogue: "Promotion of international cooperation to combat illicit financial flows to foster sustainable development"

Interactive dialogue: "Strengthening tax capacity in developing countries: Inter-agency Platform for Collaboration on Tax"

General discussion

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The meeting was called to order at 3.10 p.m.

Agenda item 2: Adoption of the agenda and other organizational matters (*continued*) (E/2017/L.15)

Draft decision E/2017/L.15: Theme for the humanitarian affairs segment of the 2017 session of the Economic and Social Council

1. **The President** said that the draft decision had no programme budget implications.

2. Draft decision E/2017/L.15 was adopted.

Agenda item 13: Implementation of General Assembly resolutions 50/227, 52/12 B, 57/270 B, 60/265, 61/16, 67/290 and 68/1 (*continued*)

Agenda item 18: Economic and environmental questions (*continued*)

(b) International cooperation in tax matters (*continued*)

Interactive dialogue: "Promotion of international cooperation to combat illicit financial flows to foster sustainable development"

3. **Ms. Iñiguez Zambrano** (Undersecretary of International Organizations, Ministry of Foreign Affairs, Ecuador), delivering the keynote address, welcomed the second meeting in New York of the Committee of Experts on International Cooperation in Tax Matters and the opportunity for the Council to discuss the Committee's work.

4. Developing countries were the States most affected by tax evasion and avoidance through illicit financial flows, but many did not have the capacity to combat the problem without support. More than a year had passed since documents providing an insight into the global scale of the problem had come to light but the international community had not taken all necessary steps to eradicate harmful practices such as the use of tax havens. A number of initiatives had been undertaken at the international level but had not been particularly successful, in part because of a lack of enthusiasm by certain institutions. Her Government was therefore of the view that the United Nations should establish an intergovernmental body on international tax matters with significant power and a high level of expertise, in which all Member States should participate on an equal basis and in a coordinated manner. Ecuador was committed to the establishment of an international tax system based on rights and equity. Efforts in that regard should focus on achieving tax justice and preventing tax evasion, tax avoidance, corruption, money-laundering and other illicit financial flows.

5. In 2015, between $100 and $240 billion in revenue had been lost globally as a result of base erosion and profit shifting. In the case of Ecuador, it was estimated that a sum equivalent to around 30 per cent of the country's gross domestic product was hidden in tax havens. In February 2017, the Ecuadorian people had voted, by means of a referendum, in favour of the adoption of a law prohibiting politicians and civil servants from holding assets or capital in tax havens. The implementation of that law would contribute to tax justice in the country, but it was also necessary to reach beyond the national level. The 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the New Urban Agenda, which had been developed by the international community to provide a road map for the future, should be implemented without delay. To that end, national tax capacities would have to be enhanced, as tax had an important role to play in the provision of essential services and public goods that helped to guarantee citizens' rights.

6. International cooperation on combating illicit financial flows was often biased or disjointed. The framework for such cooperation should operate at the level of the United Nations and focus on such areas as the effective and coordinated exchange of tax information, including through automated systems. It should also take into account revenue from sources such as natural resources, interest, royalties and the provision of technical services. Furthermore, differences in levels of national development should be considered when determining the proportion of profits that should remain in different countries. Discriminatory tax treatment of certain countries as well as tax competition were harmful and should be avoided. It would also be important to make alternative sources of revenue available for small developing countries whose economic strategies were currently based on the provision of a small number of financial services. She concluded by calling for concrete action to implement the commitment in the Addis Ababa Action Agenda to redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them.

7. **Mr. Ndikumana** (Professor of Economics and Director of the African Development Policy Program, Political Economy Research Institute, University of Massachusetts Amherst), moderator, accompanying his statement with a digital slide presentation, said that it was a positive development that the issue of capital

flow from developing to developed countries had come to be recognized as essential to the debate on development financing and social justice at the highest international levels. Responsibility for addressing illicit financial flows did not lie with source countries alone, as such flows would not exist if the funds were not accepted in the destination countries, and they could not be eliminated unless source and destination countries worked together.

8. The international community should be able to provide financing for development without fearing that funds would be siphoned off as private assets in safe havens. However, a significant proportion of economists did not consider capital flight and illicit financial flows to be a problem, or claimed that it was currently impossible to address the issue. Some argued that those phenomena allowed money to be moved to where it would be better used, which was nonsense. Others claimed that it was currently impossible to address the issue of illicit financial flows because there was no common understanding of what they were. However, while slightly different definitions had been put forward, illicit financial flows were generally agreed to be financial flows that crossed borders and violated rules of the country of origin or the country of destination because they had been acquired illegally, were transferred in a way that violated the rules for the transfer of funds between one country and another, or were used to finance illicit activities.

9. Similarly, there were no grounds to the argument that the problem could not be addressed because there was no agreement on how to measure illicit financial flows. It was true that it would likely be some time before a means of comprehensively measuring such flows would be determined, given the numerous channels and activities involved. However, there was no need to wait for a consensus to be reached on that technical point before taking action. Rather, immediate steps should be taken to address aspects of the issue that could be tackled swiftly while work was being done to develop strategies to understand and address more complex financial flows. For example, immediate progress could be made on the issues of abusive transfer pricing and trade misinvoicing. In Africa, there was currently a great deal of momentum at the regional level to address such issues, and even developed countries had come to realize that tax evasion was costly for them. That global momentum could be leveraged to make progress on combating illicit financial flows.

10. **Ms. Eva** (Deputy Director, Federal Ministry of Justice, Nigeria), panellist, said that the High-level Panel on Illicit Financial Flows from Africa considered illicit financial flows to be those that involved money that was illegally earned, transferred or utilized. The Panel had found that those funds usually came from three sources: commercial practices, including tax evasion, trade misinvoicing and abusive transfer pricing; criminal activities such as the drug trade, human trafficking, illegal arms dealing and smuggling; and corruption, namely bribery and theft by corrupt officials. Over the past 50 years, Africa was estimated to have lost over $1 trillion in illicit financial flows. Nigeria was one of the top ten illicit financial flow source countries in the world and was thought to have lost $157 billion between 2003 and 2012, which was more than the amount that the entire continent of Africa had received in development assistance during the same time period. Around 68 per cent of losses were attributable to mispricing for tax purposes and the rest to corruption, money-laundering, trafficking and other criminal activities combined. Nevertheless, while bad governance, corruption and weak institutions were not the main source of illicit financial flows, they made it possible to launder the proceeds of crime and should therefore be addressed.

11. The mobilization of domestic resources through the curbing of illicit financial flows and the reduction of opportunities for tax evasion was crucial to sustainable development. Many multinational companies and wealthy individuals used their financial power to influence tax policies, which enabled them to minimize the amount they paid, and in some cases evade payment entirely, which resulted in high poverty levels and decreased national capacity for development. Multinational corporations were also capitalizing on the weaknesses of the current global tax regime, which was over a century old. The Organization for Economic Cooperation and Development (OECD) Base Erosion and Profit-Shifting project was one initiative that had been undertaken to address that problem. It dealt with instances where the interaction of different tax rules led to double non-taxation or less than single taxation, and to arrangements that achieved no or low taxation by shifting profits away from the jurisdictions where the activities creating those profits took place.

12. The current model tax conventions and model bilateral tax treaties should be reviewed, as bilateral tax treaties tended to focus on the elimination of double taxation and could sometimes be manipulated, in conjunction with national tax laws, in such a way as to reduce or completely eliminate the tax payable on large amounts of income. In that connection, her Government had established a committee to examine the issue of double taxation agreements and national

tax legislation. Global efforts to reduce illicit financial flows should also focus on working to enhance transparency, including through information-sharing, and to ensure the unconditional return of recovered assets to the source jurisdiction. It was also important for countries to observe the arm's length principle in transfer pricing. Country-by-country reporting on corporations' profits, sales and paid tax would help States to determine where taxes were owed. There should also be a public registry of beneficial owners of companies to help prevent money-laundering.

13. The OECD Action Plan on Base Erosion and Profit Shifting had provided African countries with a solid basis for their efforts to prevent the manipulation of the global tax system and domestic tax laws. Actions taken by her Government included the development of a plan to consolidate all income from government agencies into a single account, with a view to addressing corruption and curbing illicit financial flows, and the introduction by the central bank of a biometric bank verification number system, which had already led to the detection of illicit financial flows from corruption and money-laundering. Independent Nigerian institutions such as the Economic and Financial Crimes Commission and the Independent Corrupt Practices and Other Related Offences Commission had also been strengthened. Nevertheless, sustained international cooperation, including through bilateral mutual legal assistance agreements and support in the identification of multinational corporations engaging in illegal practices, would be needed to fully address the problem of illicit financial flows in her country.

14. **Ms. Ponce** (Minister, Permanent Mission of the Republic of the Philippines to the United Nations), panellist, said that the starting point for many discussions on illicit financial flows was the lack of an internationally-agreed definition of the term. In her country, it had long been associated with the corruption of former president Ferdinand Marcos. Only around $3 billion of the $10 billion estimated to have been hidden by Mr. Marcos in foreign jurisdictions had been recovered by the Philippines. The remainder of those funds should be returned to the Philippines, as they were public funds that should be used for national development programmes. In response to that experience, an ombudsman's office had been established to investigate and prosecute allegations of corruption, and a dedicated court had been created to try such cases. However, the sum stolen by President Marcos paled in comparison to the $363.5 billion that the country was estimated to have lost as a result of trade misinvoicing between 1960 and 2011. Given that the country's annual budget of around $67 billion would be financed mainly through domestic resource mobilization, it was important to tackle the issue of trade misinvoicing and ensure that the Government was able to impose and collect the correct amount of taxes, duties and tariffs.

15. Her Government was taking steps to address fiscal problems and had achieved good economic growth over the past six years as a result of an intensified tax collection campaign and efficient tax administration programmes. The Philippines was no longer considered a tax haven and had been included in the Financial Action Task Force International Co-operation Review Group in 2013. The current tax system still had inherent weaknesses such as a lack of indexing, a large number of exemptions, and barriers to effective tax administration, such as strict bank secrecy laws. However, the national development plan for the period 2017-2022 envisaged a shift to a simpler, fairer and more efficient tax system characterized by lower rates and a broader base. The plan also aimed to improve tax compliance by simplifying processes, introducing a taxpayers' bill of rights and relaxing bank secrecy laws. Her Government had adopted legislation to modernize the customs system and was undertaking an aggressive anti-smuggling campaign supported by tighter controls in free-trade zones, fuel marking and trade data reconciliation with partner countries. The customs bureau was also improving its processing and valuation system.

16. Her Government had put in place a strong legal and regulatory framework for countering money-laundering and the financing of terrorism. To respond to developments over the past year, money-laundering laws were being amended to cover more organizations and transactions, in particular in relation to casinos. Banks had adopted controls to monitor money-laundering and terrorist financing, but there was still scope for strengthening controls in the areas of trade finance and correspondent banking. Her Government was making efforts to maintain a collaborative partnership with the banking industry. The central bank continued to work with supervisory agencies, financial institutions and other stakeholders to coordinate and improve databases and establish guidelines to better address unrecorded financial flows.

17. The Philippines had also strengthened its cross-border cooperation, in recognition of the fact that coordinated policies on reporting standards and the automation and computerization of trade processes would help to reduce the opacity of the international financial system. In that connection, her country's central bank was an active participant in the joint

initiative by the European Union and the Association of Southeast Asian Nations to improve the compilation of trade data. Her Government had actively worked towards the adoption of agreements on the exchange of tax information with other States, in the form of memorandums of understanding or provisions in double taxation agreements, while recognizing the need to ensure that such agreements did not inadvertently facilitate illicit financial flows and, in that connection, seeking to adopt mutual legal assistance treaties with other States.

18. Illicit financial flows always involved more than one country and therefore could not be addressed purely at the national level. The holding of the current debate was an important step towards reaching common definitions of illicit financial flows and trade misinvoicing. It also provided an opportunity for States to discuss solutions to challenges and identify commonalities and best practices.

19. **Mr. Schelling** (Head of the Division for International Tax Affairs, State Secretariat for International Financial Matters in the Federal Department of Finance, Switzerland), panellist, accompanying his statement with a digital slide presentation, said that efforts to substantially reduce illicit financial flows were of great importance to the achievement of sustainable development. The current set of global tools to combat illicit financial flows had been developed in waves. The Financial Action Task Force on Money Laundering, now the Financial Action Task Force, had been established in 1989, and a comprehensive set of 40 regulations against money-laundering had been adopted soon after. In 2001, its recommendations had been expanded to cover terrorist financing as well. The work of the Task Force had had a significant influence on article 24 of the 2003 United Nations Convention against Corruption. Since 2009, significant efforts had been made to combat illicit financial flows through the exchange of information. Mutual legal assistance was also an important tool. Many jurisdictions were now not only providing information upon request but also implementing means of automatic exchange of information concerning financial accounts. The challenge would be to ensure that developing countries were included in that network. Other forms of information exchange were also being expanded, such as the automatic exchange of tax rulings and country-by-country reports of multinational corporations. Another important development in recent years was the implementation of the Base Erosion and Profit Shifting project, which had led to the adoption of rules addressing harmful corporate tax practices.

20. There were various definitions of illicit financial flows. Essentially, they involved the transfer of financial capital out of a country in contravention of national or international laws. Sound social, environmental and economic policies, including countercyclical fiscal policies and measures to ensure adequate fiscal space, good governance at all levels and the existence of democratic and transparent institutions responsive to the needs of the people, would be needed to curb illicit financial flows and achieve the Sustainable Development Goals.

21. Major international initiatives to combat illicit financial flows included the adoption of tax transparency standards and rules and measures on corruption and money-laundering. It was important that those standards and rules should become applicable provisions of domestic criminal, civil and administrative law in as many jurisdictions as possible. That process should also involve the adoption of judicial and administrative mutual legal assistance on the basis of bilateral and multilateral treaties. The provision of mutual legal assistance in bribery and corruption cases was now well established between many States and had had positive results. The Financial Action Task Force system of mutual evaluation was a valuable tool for assessing the effectiveness of anti-money-laundering rules and issuing country-specific recommendations. Tax cooperation had also substantially expanded in recent years. As an example, in 2010, the Swiss authorities had processed less than 100 information exchange requests compared with over 10,000 in 2016. Such progress was important, as reducing illicit financial flows would require an internationally coordinated approach.

22. **Ms. Gopala Krishnan** (Financial Sector Expert, Stolen Asset Recovery Initiative (StAR)), panellist, accompanying her statement with a digital slide presentation, said that StAR was a partnership between the World Bank Group and the United Nations Office on Drugs and Crime. It had been launched shortly after the entry into force of the United Nations Convention against Corruption and had been working ever since as part of a technical assistance programme to implement Chapter V of the Convention on asset recovery.

23. The World Bank Group had a working definition of illicit financial flows, namely, the cross-border movement of capital associated with illegal activities in three main areas: the flow itself when it was an illegal act; the funds when they were the proceeds of illegal acts; and the funds when they were used for illegal purposes.

24. The World Bank Group intervened through StAR on issues of corruption, measuring illicit financial flows, seeking to prevent the underlying activities that led to illicit financial flows, and helping countries to stop the flow of illicit funds and recover stolen assets. Those activities entailed improving the measurement of illicit financial flows through a rapid assessment tool; increasing awareness among World Bank Group staff through workshops and seminars at the country programme level; learning lessons from StAR; building capacity in critical areas by improving systems for preventing capital flight and identifying legal identities and beneficial owners; and strengthening global coalitions through a conversation on technical topics related to illicit financial flows and asset recovery.

25. The StAR initiative sought to provide technical assistance to implement Chapter V of the Convention by ending safe havens for corrupt funds, bolstering international efforts to confiscate and recover those funds, and securing the return of stolen assets to their legitimate owners. The partnership recognized that asset recovery was a complex technical topic and the Conferences of the States Parties to the Convention had worked on building the knowledge base, developing trust and cooperation between countries, and developing forums and platforms where experts could exchange information.

26. Part of the StAR work plan involved determining how the systematic and timely return of stolen assets could be achieved. The overarching principle was to create and sustain political will. The initiative thus focused on country engagements (around 30 at any one time) involving capacity-building, legislative assistance and case facilitation assistance for countries' relationships with other jurisdictions and financial centres; influencing policies and international standards in order to inform the discussion at the technical level; knowledge-building to compensate for the previous dearth of knowledge on asset recovery through specialized publications translated into several languages; and creating partnerships, for example with the International Criminal Police Organization (INTERPOL). Asset recovery at the country level had known some measure of success, but many lessons had been learned between different jurisdictions and regions. The challenges were to improve capacity-building, better leverage partnerships and manage expectations.

27. A technical workshop on asset recovery, organized by Ethiopia and Switzerland, would be held the following week. Second Committee experts would also be attending to share more information and build knowledge.

28. **Ms. Bhatia** (Head of Secretariat, Global Forum on Transparency and Exchange of Information for Tax Purposes, Organization for Economic Cooperation and Development (OECD)), panellist, accompanying her statement with a digital slide presentation, said that there was a consensus that tax evasion was one of the main components of illicit financial flows. Transparency was key to efforts to arrest such flows. The exchange of information between tax authorities was also a critical tool. The work of the Global Forum was centred on those areas, recognizing that the problem was global and bringing together both source and destination countries to tackle it.

29. The Global Forum had been established to address tax compliance risks by bringing together OECD countries and international financial centres, which were the destinations of illicit financial flows. Following the financial crisis in 2009, when the Group of 20 (G-20) leaders had called for an end to bank secrecy for tax purposes, the Global Forum had been restructured and all countries and jurisdictions had been invited to participate. The Forum was tasked with implementing standards for the exchange of information on request, subject to an exhaustive peer review process. The Forum was currently working on the automated exchange of account information.

30. The Global Forum had adopted an inclusive approach designed to bring together a diverse range of countries united in their common objective of providing tax authorities with the tools to address cross-border tax evasion. Many African countries were not yet members of the Global Forum, but some were participating actively.

31. Exchanges of information on request required relationships with treaty partners and those relationships had increased from around 2,000 in 2009 to 7,000 in 2017. One of the most powerful instruments had been the Multilateral Convention on Mutual Administrative Assistance in Tax Matters in which more than 100 countries and jurisdictions were participating.

32. The first round of peer reviews had been completed in 2016 and 116 jurisdictions had received compliance ratings. When the G-20 had announced that the era of bank secrecy was over, almost 70 countries and jurisdictions around the world had bank secrecy for tax purposes, but more than 65 had since ended bank secrecy through legislative reforms and changed practices, and by devoting resources to effective international cooperation in tax matters. Most progress had been made in fixing the supply side, meaning that countries were willing to provide information; the time

was now ripe to fix the demand side. There was scope for developing countries to participate more fully.

33. The latest round of peer reviews to be launched included the standard of beneficial ownership. All 139 jurisdictions undergoing a peer review were required to demonstrate that they could access beneficial ownership information and exchange it with treaty partners. Some 100 countries and jurisdictions had committed to automated exchanges of information. There was a gap between Global Forum membership and the commitments, and it was the result of commitments to a specific timeline. Some would start in 2017 and others in 2018. Developing countries with no financial centres had not been asked to commit to a specific timeline because of capacity issues and because those countries had not posed a risk of tax evasion at the time. However, participation in automatic exchanges of information was important for developing countries and they were welcome to participate. In view of the need for exchanged data to be kept confidential and used for appropriate purposes, the Global Forum was helping countries to ensure data confidentiality and promote domestic legislation for banks and financial institutions to collect, transmit and process information. The Global Forum had put in place pilot projects to encourage the participation of developing countries. Six were ongoing for Albania, Colombia, Ghana, Morocco, Pakistan, and the Philippines.

34. Beneficial ownership was a key issue in combating illicit financial flows and addressing its linkages with money laundering and corruption. Technical assistance required the participation of developing countries and a demand for information — and the number of requests for information had indeed increased. As a result, revenues were being raised. The Philippines had made one or two requests and Uganda alone had raised $9 million just from its first set of requests. In the area of automated exchanges of information, many countries had put in place voluntary disclosure schemes and amnesty programmes. Many African countries had not benefited sufficiently, but while illicit financial flows were a major issue for low-income countries, there was great potential for those countries to participate in the global initiatives to tackle those flows.

35. **Ms. Saint Malo De Alvarado** (Observer for Panama) said that her Government had made efforts to comply with the highest standards of transparency, including cooperation to prevent tax evasion and illicit financial flows. Her country was committed to automated exchanges of information and was participating in the Base Erosion and Profit Shifting project. Its legislative and regulatory framework had been adjusted to incorporate appropriate measures to implement the fast track of the Global Forum pursuant to the latest developments in her country. The increasingly inclusive approach of the Global Forum was positive and all countries should be involved in the global discussion. Also important were internationally agreed goals, including with respect to blacklists. Although her country did not endorse the idea of blacklists, it did believe that if they were necessary, they should not be based on subjective criteria that differed from internationally accepted criteria; otherwise, it would be more difficult to enforce them and doubt would indirectly be cast on the international efforts of recognized multilateral bodies.

36. The standards promoted by international organizations went in the right direction. The challenge was to implement them by means of significant resources, which in some cases came at the expense of countries' needs, including their need to mobilize domestic resources. There should be a clear differentiation between tax incentives as a tool for attracting foreign direct investment to meet the financial needs of each country, and mechanisms that facilitated tax evasion, which were opposed by countries such as Panama because they hindered the ability of States to finance the 2030 Agenda. The less industrialized countries had traditionally used tax incentives to attract investment, create jobs and obtain transfers of technology with the purpose of achieving the Sustainable Development Goals. While the new expectations promoted by the international community cast doubt on the legitimacy of tax incentives on the grounds that they were considered harmful, that should not undermine tax incentives seeking to attract foreign investment as a genuine means of financing. The international community should differentiate harmful incentives from incentives that promoted development. For middle-income countries such as Panama, a balance should be struck between international expectations and the needs to be met in the achievement of the Sustainable Development Goals by all countries.

37. The ultimate objective was inclusive and sustainable development. Corruption, tax evasion and illicit financial flows diminished development resources. The Council should therefore discuss ways of combating illicit financial flows and boosting financing for development.

Interactive dialogue: "Strengthening tax capacity in developing countries: Inter-agency Platform for Collaboration on Tax"

38. **Mr. Montiel** (Assistant Secretary-General for Economic Development), moderator, said that the Inter-agency Platform for Collaboration on Tax, a joint initiative of the International Monetary Fund, the Organization for Economic Cooperation and Development, the United Nations and the World Bank Group, had been launched in 2016 to intensify cooperation on tax issues among those four organizations and to strengthen their tax capacity-building support for developing countries. At the previous special meeting of the Council on international cooperation in tax matters, the Platform partners had presented a report on enhancing the effectiveness of external support in building tax capacity in developing countries, which had been prepared at the request of the G-20 finance ministers. The report contained a set of recommendations and enabling actions to help ensure the implementation of capacity-building programmes discussed by delegations representing national tax authorities, regional tax organizations and other stakeholders. The Platform had since developed toolkits to help developing countries in taxing multinational enterprises, including through the implementation of measures developed under the G-20/OECD Base Erosion and Profit Shifting project.

39. The Platform was assisting developing countries with the implementation of nationally owned medium-term revenue strategies in support of country-led reforms of tax policies and administrations. A related meeting would be organized in May in London. The first global conference organized under the aegis of the Platform would be held at United Nations Headquarters in February 2018 and would address the theme of taxation and the Sustainable Development Goals.

40. The current session was intended to provide an update on the work of the Platform and was an opportunity to discuss the report on tax capacity-building, especially in light of the request by Group of 20 finance ministers for a progress report on the implementation of the recommendations by mid-2017.

41. **Mr. Verhoeven** (Lead Economist and Cluster Lead Tax, Global Tax Team, Equitable Growth, Finance and Institutions, World Bank Group), panellist, accompanying his statement with a digital slide presentation, said that there was an increased recognition of the centrality of strong tax systems for development. One aspect was the need for more revenue in developing countries for development priorities. Around one third of developing countries had a tax to gross domestic product ratio below 15 per cent, a level which was insufficient to achieve basic development priorities in the areas of infrastructure and basic social services. Recent research by the International Monetary Fund had shown that once the 15 per cent threshold was crossed, favourable mechanisms set in and the resulting better public service delivery, higher tax revenues and higher trust in Government combined to create better economic conditions and higher growth. The manner in which the additional revenue was raised was also key. Suboptimal tax policies and administrative practices would cause the benefits to disappear. Strong tax systems should therefore ensure the promotion of growth and the strengthening of equity and trust in Government. It was in that context that the Platform bringing together International Monetary Fund, the Organization for Economic Cooperation and Development, the United Nations and the World Bank Group intensified cooperation in tax matters.

42. Strong tax systems required strong national taxation capacity. Political commitment, a prerequisite for taxation capacity-building, could be promoted through coherent revenue strategies; strong coordination among providers of external support; and a sound knowledge and evidence base through toolkits, strong regional cooperation and strong participation by developing countries in rule-setting.

43. Highlights of the progress already achieved were the capacity-building report and, in particular, the idea of medium-term strategies; toolkits; the establishment of a secretariat within the World Bank Group; and the forthcoming first global conference on taxation and the Sustainable Development Goals in February 2018.

44. **Mr. Saint-Amans** (Director, Centre for Tax Policy and Administration, Organization for Economic Cooperation and Development), panellist, accompanying his statement with a digital slide presentation, said that one aim of the implementation of the Platform was to deliver joint work. The report delivered to the G-20 Development Working Group was intended to identify the key base erosion and profit shifting pressure points of relevance to developing countries. Toolkits would address that issue and also the needs of developing countries. The mandate had been given to the four Platform organizations represented at the current meeting to deliver the toolkits and hold the 2018 conference.

45. The focus of delivering the toolkits was on the practical tools needed by developing countries to carry

out risk assessments and audits and align themselves with base erosion and profit shifting measures through a multilateral approach, which was much more efficient than unilateral or bilateral approaches. The specificities and realities in terms of capacity-building and the shape and level of each economy would require different approaches, meaning that base erosion and profit shifting compliance should be reconciled with the realities of low-capacity countries.

46. Another aspect was the need for assistance with the implementation of base erosion and profit shifting measures using practical tools. Issues other than the 15 measures identified in the Action Plan on Base Erosion and Profit Shifting had been developed primarily by the G-20 and OECD countries, although developing countries had since joined the inclusive framework for implementation of those measures. The International Monetary Fund had been instrumental in identifying the indirect transfer of assets causing tax loss in developing countries.

47. There were eight practical toolkits at different stages of development. They concerned the efficient and effective use of incentives for investment; the difficulty of accessing comparables on transfer pricing and deciding what to do when no comparables were available; options for taxing offshore indirect transfers of assets; the implementation of transfer pricing documentation regimes, which were tedious but essential in order for each country to have the same global view of the tax planning of companies as those companies' tax directors; treaty negotiation, especially for developing countries; tools for base erosion and profit shifting risk assessment, given that aggressive tax planning was not the same in sophisticated tax environments and in developing countries; tools for addressing base-eroding payments to corporate headquarters in developed countries; and the countering of artificial profit-shifting resulting from supply chain restructuring as a result of aggressive tax planning by some companies. Good progress had been made in cooperation with the World Bank Group, the United Nations, the International Monetary Fund and the Organization for Economic Cooperation and Development. In subsequent consultations, Member States would have an opportunity to express their views and influence standard-setting on an equal footing. The United Nations, with its legitimacy and in-depth knowledge of development issues, and the World Bank Group and International Monetary Fund, with their massive technical assistance deployment, would together be as useful to Member States as possible.

48. **Ms. Perry** (Assistant Director, Fiscal Affairs Department, International Monetary Fund (IMF)), panellist, accompanying her statement with a digital slide presentation, said that the four Platform organizations had further developed the concept of medium-term revenue strategies, which were a high-level road map for tax system reform to mobilize revenues over four to six years. Tax reform and institution-building were parallel projects; both required tax policy to be synchronized with a country's expenditure needs, tax administration and the underlying legal components. A country's economic and social programmes should be financed through quality tax revenue using a system that mobilized resources while reflecting distributional considerations and creating incentives for economic and social development.

49. A medium-term revenue strategy had to be a public document. It should be country-wide, involving all stakeholders, with accountability to society as a whole, so that it was a Government-led and country-owned effort supported at the highest political level with the understanding of a relevant cross-section of a country's citizens. The proper formulation and implementation of a medium-term revenue strategy would entail capacity-building and support from development partners subordinated to the Government-led strategy. A medium-term revenue strategy would help the achievement of the Sustainable Development Goals and benefit domestic revenue reform by setting a vision and path for the domestic tax system's changes. The strategy could enable build a broad consensus based on country ownership and government commitment to design and implementation. Experience had shown that consistent and well-guided reform was necessary to achieve modernization. A medium-term revenue strategy could set a framework to align external support with revenue change and help countries, especially low-capacity countries, to make use of the support provided by the Addis Tax Initiative. Resources would also be used more effectively by avoiding duplication among the technical assistance providers aligned under the umbrella of the Government-led medium-term revenue strategy.

50. To implement the medium-term revenue strategy, a workable consensus on the tax system; high-level political commitment; a comprehensive reform plan spanning the policy-setting, institutional and revenue agencies and an appropriate legal framework; and the agreement of capacity providers to systematically support that vision over the long haul would all be necessary. As experience had shown that donor assistance, however well-intentioned, could be

fragmented and uncoordinated, the medium-term revenue strategy aimed to provide leadership to ensure that country-level efforts were coordinated. The diagnostics, reform design, implementation, monitoring and evaluation of proposed changes all had to be tracked and tailored to each country's own circumstances.

51. The next step was to launch the concept of pilots at a ministerial and technical-level conference sponsored by the United Kingdom Treasury and the United Kingdom Department for International Development in May. It would be an opportunity to present the concept at a high level and discuss its ramifications in the hope that Governments would be prepared to pilot those concepts and secure buy-in from donors. Phase II of the International Monetary Fund Revenue Mobilization Trust Fund went further with the concept and would be supported by a wide body of donors. Platform partners were enthusiastic not least because it would help coordinate support over the long haul in a number of countries.

52. **Mr. Trepelkov** (Director, Financing for Development Office, Department of Economic and Social Affairs), panellist, accompanying his statement with a digital slide presentation, said that the first global conference on taxation and the Sustainable Development Goals was scheduled to be held at the United Nations Headquarters in New York from 14 to 16 February 2018. The objectives of the conference were to advance global dialogue on the role of tax in the achievement of the Sustainable Development Goals and to share insights on the challenges and opportunities faced by countries in using tax systems to that end. The conference would begin with a general discussion on the role of taxation in achieving the Sustainable Development Goals and continue with discussions of five themes: domestic resource mobilization and the State; the role of tax in supporting sustainable economic growth investment and trade; tax and the social dimension; tax capacity development; and tax cooperation and the Sustainable Development Goals. There would also be a special session on resource leakages due to illicit financial flows, with a focus on the impact that illicit financial flows had on sustainable development and corrective measures at the national and international levels to tackle illicit financial flows.

53. Discussions on the first theme, domestic resource mobilization and the State, would focus on the role of tax policy to expand the fiscal space and ensure fiscal sustainability, approaches to State building and strategies for better governance, and best practices for reforming tax administrations to make them better at raising revenue.

54. Discussions on the second theme, the role of tax in supporting sustainable economic growth investment and trade, would focus on the challenges faced by developing countries in taxing corporate income; solutions to tackling tax avoidance; options available for environmental taxation, including the imposition of carbon taxes and cap and trade schemes; and taxation of natural resources to ensure that countries received a fair share of the wealth derived from resources.

55. Discussions on the third theme, tax and the social dimension, would focus on tax instruments used to reduce discrepancies and inequalities at global and national levels; health-related taxes used to curb consumption of health-damaging products and promote better public health outcomes; and the use of tax measures to eliminate gender bias and achieve greater gender inclusivity.

56. The fourth theme, tax capacity development, aimed to highlight successful capacity-building initiatives in both tax policy and administration, develop lessons learned and best practices, and feed into discussion on what the Platform for Collaboration on Tax could do to help developing countries build their tax capacity.

57. Discussions on the fifth theme, tax cooperation and the Sustainable Development Goals, would explore the role of tax reforms and international tax cooperation in achieving the Sustainable Development Goals.

58. The Platform would issue a note summarizing discussions, issues and challenges raised during the conference and reflecting on the role of the Platform in helping countries to address them. Additional information on the programme for the conference could be found on the dedicated web page of the conference and the Platform's website.

59. He invited participants to provide comments and suggestions that could be incorporated into the conference documents. The Platform secretariat, hosted by the World Bank, was recruiting one professional and one administrative staff member to support preparation for the conference. He appealed to all Member States to provide their political support to the conference and to actively participate in the event.

60. **Mr. Paul** (World Health Organization (WHO)) said that he welcomed the establishment of national medium-term revenue strategies but wondered to what extent they might differ from existing medium-term fiscal strategies which covered not only revenue but

also expenditure. He also asked whether the toolkits developed by the Platform focused solely on alignment with base erosion and profit sharing measures and whether further toolkits might be developed to foster domestic resource mobilization.

61. The Addis Ababa Action Agenda recognized that tax measures on tobacco could not only reduce tobacco consumption but also create a lucrative revenue stream for developing countries. The Philippines, for example, had been able to subsidize health insurance premiums of some 40 to 50 per cent of the country after restructuring its tobacco taxation system, while Gambia had seen a significant rise in tax receipts after increasing the excise taxes on tobacco. The fact that tobacco taxation could be imposed directly on tobacco factories made it a low-lying fruit for developing and developed countries alike.

62. **Ms. Samuels** (International Chamber of Commerce and Financing for Development Business Sector Steering Committee) said that Member States should give further thought to the use of taxes for specific infrastructure deals, which tended to depend on taxes. Funds for water infrastructure projects in the United States, for example, came in equal measure from federal taxes, state taxes and the private sector. If there was enough political will, the demand for such taxes might increase. She proposed including the multiplier effect of increased tax collection and transparency as a toolkit or pilot at the first global conference on taxation and the Sustainable Development Goals.

63. **Mr. Trepelkov** (Director, Financing for Development Office, Department of Economic and Social Affairs) said that he welcomed the emphasis of WHO on health-related taxes, which would be covered as a dedicated subject under the thematic area "tax and the social dimension" at the global conference. He agreed that taxes on tobacco could not only boost public health outcomes but also generate revenue.

64. **Mr. Saint-Amans** (Director, Centre for Tax Policy and Administration, Organization for Economic Cooperation and Development) said that a few of the toolkits dealt with topics other than base erosion and profit sharing measures, such as the toolkit on treaty negotiation. The current toolkits had been designed to respond to Member States' immediate requests but could be adjusted to meet their needs.

65. **Ms. Perry** (Assistant Director, Fiscal Affairs Department, International Monetary Fund (IMF)) said that the medium-term revenue strategies built on the medium-term fiscal strategies, but that the latter entailed a more macroeconomic outlook of a given country's fiscal role. The tobacco tax would for many countries be incorporated into the medium-term revenue strategy.

66. **Mr. Verhoeven** (Lead Economist and Cluster Lead Tax, Global Tax Team, Equitable Growth, Finance and Institutions, World Bank Group) said that it would be advantageous to create positive synergies between publicly and privately raised resources but that some unresolved issues still needed to be discussed. The Spring Meeting of the World Bank Group and the International Monetary Fund later in the month would focus specifically on collective action by the private and public sectors in the tax system.

General discussion

67. **Ms. Iñiguez Zambrano** (Observer for Ecuador), speaking on behalf of the Group of 77 and China, said that efforts in international tax cooperation should be universal in scope and fully take into account countries' needs and capacities. The Group valued inclusive cooperation and dialogue on international tax matters among national tax authorities; the recognition of the central role of tax systems in development; and the mobilization of domestic resources for the implementation of the 2030 Agenda by scaling up international tax cooperation and combating illicit financial flows. The Group was committed to strengthening regulatory frameworks at all levels and increasing the transparency and accountability of financial institutions, the corporate sector and public administrations.

68. Further coordinated action was required to eliminate safe havens, which created incentives for the transfer abroad of stolen assets and illicit financial flows. Members of the Group of 77 and China were committed to strengthening international cooperation and helping national institutions to combat money-laundering and the financing of terrorism, which had serious repercussions on economic development and social cohesion.

69. She called on Member States, relevant organizations and potential donors to contribute generously to the Trust Fund for International Cooperation in Tax Matters, which supplemented the regular budgetary resources of the Committee of Experts on International Cooperation in Tax Matters, to allow it to fulfil its mandate. In addition, she invited developing countries, in particular least developed countries, to nominate candidates as members of the Committee in order to achieve an equitable geographical distribution of members and a balanced representation of different tax systems. She also urged

the Committee and its subcommittees, in compliance with their mandates, to consider new and emerging issues affecting domestic resource mobilization, including illicit financial flows, tax evasion and corruption, with a view to eventually eliminating them through enhanced national regulation and international cooperation.

70. Whereas there were currently dialogues and initiatives to promote cooperation on tax matters at the international level, a global forum on international tax cooperation was yet to be established at the intergovernmental level. The United Nations was the only universal forum where such issues could be discussed in an open, transparent and inclusive manner, rather than from a perspective that protected the interests of developed countries. The Group urged Member States to consider upgrading the Committee to an intergovernmental subsidiary body of the Economic and Social Council in which experts represented their respective Governments, so that Member States could participate in the mechanism in an inclusive and participatory manner.

71. **Ms. Young** (Observer for Belize), speaking on behalf of the Caribbean Community (CARICOM), said that CARICOM believed that financial centres should be allowed to continue to grow and thrive in a transparent environment in which the trade of financial services was conducted in a responsible manner.

72. CARICOM boasted well-regulated financial centres which embraced transparency and were committed to implementing globally accepted standards, while prioritizing the best interests of their jurisdictions and clients. CARICOM was committed to continue playing an active role in initiatives to enhance international cooperation in tax matters and improve transparency within international financial centres. Although CARICOM recognized efforts to tackle base erosion and profit shifting, promote automatic exchange of information at a global level, combat illicit financial flows and involve developing countries as equal partners, much work remained to be done to mitigate financial and human resource constraints that prevented developing countries from taking part in such initiatives and implementing international standards and agreements.

73. The United Nations played a crucial role in addressing matters related to international tax cooperation. Its universal character ensured that all countries could participate on an equal footing and have the opportunity to shape the global agenda. In that regard, she noted with interest the launch of the Platform for Collaboration on Tax, which would be critical in deliberations held within the Economic and Social Council. CARICOM continued to support the call to convert the Committee of Experts into an intergovernmental subsidiary body of the Economic and Social Council so as to enhance its work, particularly with regard to the development dimension and capacity-building for developing countries, and to bridge the gaps in international tax cooperation. The Caribbean Community urged all Member States and relevant organizations to contribute generously to the Trust Fund for International Cooperation in Tax Matters to ensure that the Committee and its secretariat had adequate resources and that developing countries were adequately represented at the meetings of subcommittees and working groups.

74. **Ms. Schmid-Luebbert** (Germany), speaking on behalf of the European Union and its member States, said that the European Union had consistently shown leadership on good governance in tax matters and promoted the principles of transparency, information exchange and fair tax competition. Major improvements had also been made to tax governance in the European Union internal market while taking into account the implications for other countries.

75. The European Union welcomed the work done by OECD in the context of the Global Forum on Transparency and Exchange of Information for Tax Purposes, and on the framework to tackle base erosion and profit shifting. It was particularly encouraging that all countries wishing to take part in the framework had an equal say in monitoring its application.

76. The European Union had a long history of helping developing countries to secure sustainable domestic revenues and was committed to doubling its support to domestic resource mobilization by 2020. The European approach, as outlined in the "Collect More — Spend Better" strategy, considered the revenue and expenditure aspects of domestic public finance from a holistic perspective. The strategy also discussed how to close the tax policy and tax compliance gaps, particularly with regard to tax evasion, tax avoidance and illicit financial flows, and how to transform revenue into public goods and services through better management of public expenditure. The European Union appreciated recent initiatives related to those topics, such as the International Expert Meeting on the Management and Disposal of Recovered and Returned Stolen Assets, held in Addis Ababa in February, and a recent workshop in New York on illicit financial flows.

77. The European Union and its member States were firmly of the view that Economic and Social Council

resolution E/RES/2017/2, adopted by the Council on 5 October 2016, met the aims of paragraph 29 of the Addis Ababa Action Agenda, and that the arrangement to alternate meetings of the Committee of Experts between Geneva and New York would not alter the expert nature of the Committee. The European Union had provided financial support to the Committee in 2016, including funding for the participation of experts from developing countries in the subcommittees, and planned to continue its support in 2017.

78. **Mr. Gad** (Observer for Egypt) said that the adoption of the 2030 Agenda for Sustainable Development compelled most Member States to take a new tack in financing for development by relying principally on public funding. Since tax policy was at the heart of public funding, it was vital for Governments to tackle illicit financial flows and tax evasion, strengthen international cooperation, transparency and accountability on tax matters and eliminate tax havens.

79. The United Nations was the main global forum for the objective treatment of sustainable development and financing for development, and its role had increased in the years since the adoption of the Sustainable Development Goals and the Addis Ababa Action Agenda. Member States must ensure that the Organization occupied its natural place as the main venue for international cooperation in tax matters. Affirming that the Committee of Experts was the most appropriate body for assuming a leadership role in tax cooperation, he urged Member States to support the Committee and its secretariat by contributing to the Trust Fund for International Cooperation in Tax Matters. In conclusion, he encouraged the Council to pay due regard to the equitable geographical representation of the Committee's members in renewing its mandate, and to agree to convert it into a unique intergovernmental body with a focus on tax matters.

80. **Mr. Bolado** (Observer for Mexico) said that he wished to highlight the insertion of a clause in the comments to article 1 of the United Nations Model Double Taxation Convention between Developed and Developing Countries relating to the prevention of double taxation and double non-taxation. The clause would ensure proportionate and fair taxation of income and could be an important addition to the arsenal of measures to combat tax evasion and tax avoidance.

81. **Ms. Roman Florencio** (Observer for Paraguay) said that Member States would need to commit to strengthening domestic resource mobilization and improving the efficiency of their tax collection mechanisms if they were to achieve the ambitious objectives set by the 2030 Agenda and the Addis Ababa Action Agenda. Paraguay advocated, in particular, responsible and sustainable fiscal policies, including the integration of the informal sector into the formal economy, more efficient tax collection, greater tax equity and efforts to combat tax evasion and corruption. Given the particular importance of transparency, her country had made progress in its implementation of international tax standards and had joined the Open Government Partnership, the Global Forum on Transparency and Exchange of Information for Tax Purposes and the OECD Base Erosion and Profit Shifting framework. As part of its effort to incorporate international standards into its domestic legislation, Paraguay had already begun working on a technical cooperation project with the Department of Economic and Social Affairs.

82. **Mr. Deher Rachid** (Brazil) said that tax issues were increasingly taking on an international dimension because they could no longer be addressed adequately by national efforts alone. Specifically, illicit financial flows could be addressed only through coordination among origin, destination and transit countries. Tax administrations of developing countries lacking structures to mobilize resources required contributions of experience and material resources from developed countries, while the collective capacity of tax administrations could be boosted only with the help of multilateral regulatory frameworks that were balanced and representative.

83. Cooperation in tax matters should be considered in an intergovernmental context in which the interests of all countries were respected. Brazil welcomed efforts to make international tax coordination bodies more democratic and representative, but recognized that the United Nations remained the most representative space for coordination. Coordination on tax matters was also critical in promoting development for all and implementation of the 2030 Agenda for Sustainable Development. The Sustainable Development Goals, in particular, would require unprecedented resource mobilization at the national and international levels that could only be achieved by strengthening the tax capacities of developing countries and increasing the active involvement of the United Nations.

84. **Mr. Shearman** (United Kingdom) said that his delegation agreed with the acknowledgement in the Addis Ababa Action Agenda that domestic resource mobilization was crucial to the implementation of the 2030 Agenda. The United Kingdom remained committed to the Addis Ababa Action Agenda and

appreciated the momentum provided by the Platform for Collaboration on Tax, whose toolkits would help build capacity and meet the needs of developing countries. The OECD Base Erosion and Profit Shifting framework also deserved the support of Member States, as it was an effective mechanism for harnessing tax cooperation and increasing domestic resource mobilization.

85. The United Kingdom was committed to building capacity in developing countries. Nevertheless, any frameworks helping countries to develop their capacities needed to be backed up by genuine efforts and resources. As a founding member of the Addis Tax Initiative, his country had pledged to double its support for capacity-building in tax matters by 2020 and was already undertaking work with numerous countries in that regard. The conference to be held in London in May would provide developing countries and international organizations with an excellent opportunity to work together on drafting national medium-term revenue strategies.

86. **Mr. Mmusele** (South Africa) said that his delegation appreciated the Council's decision to continue holding meetings of the Committee of Experts in New York. That decision had facilitated the arrangement of the current special meeting on international cooperation in tax matters and could pave the way for the development of an intergovernmental and universal mechanism on tax cooperation.

87. South Africa strongly discouraged adopting an unbalanced and selective approach to the Addis Ababa Action Agenda. The emphasis on domestic resource mobilization, for example, placed a considerable burden on developing countries lacking the capacity to mobilize sufficient resources to meet the Sustainable Development Goals. Similarly, obstacles to capacity-building had not been addressed, including the need for enhanced official development assistance (ODA) pledged in the Addis Ababa Action Agenda (para. 22). The Agenda could boost global economic growth for both developed and developing counties, but only if its seven action areas could be applied in an unbiased manner.

88. In line with its commitments under the Agenda to scale up international tax cooperation, South Africa commended the technical work carried out by the Committee of Experts and supported calls to strengthen support for it. The Committee should evolve into a full intergovernmental body because there was currently no global, inclusive norm-setting mechanism for international tax cooperation at the intergovernmental level.

89. It was an economic and social imperative for Member States to work together to tackle illicit financial flows, which continued to drain developing countries, especially on the African continent, of billions of dollars that could have stimulated economic growth. International cooperation was also a prerequisite for combating illicit financial flows and stamping out tax evasion and tax avoidance. The establishment of a robust and universal intergovernmental tax regime that closed all loopholes for potential abuse would endow Governments with stronger legislative systems for dealing with tax matters.

90. **Mr. Sinha** (India) said that while the Committee of Experts had made a valuable contribution to the development of tools and guidelines, information exchange and capacity-building, its work could not serve as a substitute for multilateralism and equitable participation in decision-making on global norms and standards. Adequate means of implementation were required to implement the 2030 Agenda; for the developing countries, tax revenue was the most important means of mobilizing domestic resources to that end. Furthermore, the interconnected nature of modern business called not only for tax policies with a perspective that went beyond national borders, but also for international cooperation and the strengthening of institutional arrangements. The Committee of Experts should therefore be upgraded to an intergovernmental body with universal membership, as the current system was perceived to be skewed in favour of the most powerful States. The United Nations was the only forum that could provide all States with an equal voice and ensure that processes were transparent, inclusive and in the interest of all Member States. Paradoxically, some States that considered domestic resource mobilization through taxation to be an important element of financing continued to be resistant to the idea of equitably sharing tax revenue from cross-border transactions.

91. Upgrading the Committee of Experts to an intergovernmental subsidiary body of the Economic and Social Council comprising experts representing their national Governments would increase the legitimacy, accountability and authority of the Committee and, consequently, enhance the impact of its work. It would also strengthen the relationship between taxation and development by giving a voice to developing countries and establishing balanced North-South representation.

92. His delegation welcomed the decision to hold two annual session of the Committee, one in Geneva and one in New York. It hoped that, in future, the

Committee would be better resourced and include a greater number of members from developing countries.

93. **The President**, summing up, said that the current special meeting on international cooperation in tax matters had built on the momentum of national, regional and international efforts to enhance international cooperation in tax matters and combat illicit financial flows. The statement by the Under-Secretary-General for Economic and Social Affairs, the keynote address by the Commissioner of Legal Services and Board Affairs of Uganda, the interactive dialogues and the general discussion had all served to solidify the link between the technical work of the Committee of Experts and the mandate of the Economic and Social Council to guide the implementation of the 2030 Agenda and the Addis Ababa Action Agenda.

The meeting rose at 6.20 p.m.